

28 NOV 2025

NATIONAL LAW UNIVERSITY, JODHPUR
End Term Examination August-December - 2025
UG I Semester
Principles of Accounting

Time: Three Hours

Marks: 100

Instructions:

- i) Attempt any five questions out of six questions.
- ii) Adhere to the examination rules.
- iii) Use of simple calculator is permitted.

Q.1). A. Discuss the interrelationship between Accounting and Law. Explain how law influences accounting practices and how accounting is relevant for law, citing relevant examples.

B. Explain the following accounting concepts: -

- i. Single Entity Concept
- ii. Accrual Concept

(Marks 10+10=20)

Q.2). Write brief notes on: -

- i. Ind AS 16 Property, Plant and Equipment
- ii. Ind AS 33 Earnings Per Share
- iii. Ind AS 108 Operating Segments
- iv. Accounting and Indian Knowledge System

(Marks 4*5=20)

Q.3). During April 2025, *Innovate Law Associates*, an intellectual property law firm in Bengaluru, purchased advanced patent management software for ₹ 1,50,000 to handle client portfolios efficiently. The firm also paid ₹ 15,000 for installation and setup, and ₹ 10,000 for training staff to operate the new system. The firm paid ₹ 60,000 for annual software licence renewal. During the year, it earned ₹ 8,00,000 as fees from trademark registration and patent filing services. The firm paid ₹ 60,000 as monthly office rent, ₹ 50,000 as staff salaries, ₹ 8,000 for stationery, ₹ 5,000 for electricity and internet, and ₹ 12,000 for periodical subscriptions related to international IP law updates. The firm received ₹ 3,00,000 from the sale of old computer systems. The firms paid ₹ 18,000 for travel to attend an international patent conference. Additionally, it bought new office desks costing ₹ 40,000 and received ₹ 25,000 as consultancy fees for delivering a guest lecture on IP regulation at a university.

Classify each transaction under *Capital Expenditure*, *Revenue Expenditure*, *Capital Receipt*, or *Revenue Receipt* with justification.

(Marks 20)

Q.4). On January 1, 2025, John Smith starts an incorporated CD and tape store called Music Mart, Inc. He does this by depositing ₹ 50,000 of his own funds in a bank account that he has opened in the name of the business entity and taking ₹ 50,000 of stock certificates in return. He is the sole owner of the corporation.

Jan. 2 Music Mart borrows ₹ 25,000 from a bank; the loan is evidenced by a legal document called a note.

Jan. 3 The business buys inventory (merchandise it intends to sell) in the amount of ₹ 10,000, paying cash.

Jan. 4 For ₹ 1,500 cash, the store sells merchandise that costs ₹ 1,000.

Jan. 5. The store purchased and received merchandise for inventory for ₹ 10,000, agreeing to pay within 30 days.

Jan. 6. Merchandise costing ₹ 3,000 was sold for ₹ 4,600, which was received in cash.

Jan. 7. Merchandise costing ₹ 3,400 was sold for ₹ 5,240, the customers agreeing to pay ₹ 5,240 within 30 days.

Jan. 8. The store purchased a three-year fire insurance policy for ₹ 2,448, paying cash.

Jan. 9. The store purchased two lots of land of equal size for a total of ₹ 48,000. It paid ₹ 12,000 in cash and gave a 10-year mortgage for ₹ 36,000.

Jan. 10. The store sold one of the two lots of land for ₹ 24,000. It received ₹ 6,000 cash, and in addition, the buyer assumed ₹ 18,000 of the mortgage; that is, Music Mart, Inc., became no longer responsible for this half.

Jan. 13. Smith took merchandise costing ₹ 1,500 from the store's inventory for his personal use.

Jan. 14. Smith learned that the individual who purchased the land (No. 6 above) subsequently sold it for ₹ 28,000. The lot still owned by Music Mart, Inc., was identical in value with this other plot.

Jan. 15. The store paid off ₹ 12,000 of its note payable (disregard interest).

Jan. 16. Smith sold one-third of the stock he owned in Music Mart, Inc., for ₹ 22,000 cash.

Jan. 17. Merchandise costing ₹ 1700 was sold for ₹ 2,620, which was received in cash.

Jan. 30. The store has an outstanding utilities bill amounting to ₹ 550.

Analyse the effect of the above transactions on the accounting equation. Prepare a balance sheet in proper form as on January 31, 2025. Assume that all these transactions occurred in January and that there were no other transactions in January, 2025.

(Marks 20)

Q.5). Interpret the following: -

- i. A company has a high current ratio and low quick ratio
- ii. A company has a long average collection period and short average payment period
- iii. A company has a very high selling expenses ratio in the current year compared with the previous years.
- iv. A company has a high debt equity Ratio and low interest coverage ratio
- v. High debt equity ratio for shareholders of a firm

(Marks 5*4=20)

Q.6). "Financial Statements are crucial for understanding a company's performance, stability and potential risks. While these serve as a reliable source of information for investors, analysts, lenders and regulators; financial statements can sometimes mask underlying issues through complex accounting manoeuvres or questionable practices." Identify any ten red flags which can be traced in the financial statements of a company and suggest detection strategies to trace these red flags. Substantiate your answer with examples.

(Marks 20)